Treasury Department,

Office of the Secretary,

Washington, D. C., August 25,1899

A. S. Phelps, Esq.,

Joliet, Illinois.

Dear Sir:

Your letter of August 21st is received. I have read your communications carefully and replied to them in detail, from a sincere desire to reach the differences between us , and expose them to such close scrutiny that the facts would appear to both of us in the same relations. I must acknowledge feeling the same sense of regret that you express at finding that the differences have not disappeared.

I note the London table of equivalents which you have worked out for February 12,1873, and August 16,1899. I have not verified it, for as I am aware that such a movement of prices has taken place I assume your calculations are accurate. By this you show that an ounce of gold would buy 11 bushels 36 pounds of wheat in 1873 and 25 bushels 30 pounds in 1899, also that an ounce of gold was equivalent to 45 rupees in 1873 and 67 rupees in 1899. From this you deduce that the American farmer would need to coin his ounce of gold into \$31. in 1899 instead of \$20.67 , in order

to maintain the same relative conditions which existed between him and the Indian farmer in 1873. This conclusion I cannot reach. To my judgment you err in comparing the rupee now with the rupee in 1873. The essential thing in money is value. It is for its value, for its purchasing power, that it is sought. But while you assume that each rupee has the same value now that it had in 1873, the fact is that $20.67 is as full an equivalent for 67 rupees now as it was for 45 rupees in 1873.

The American farmer can take $20.67 into the market and buy what the Indian farmer sells for 67 rupees.

Let us suppose that the value of the dollar had been falling with that of the rupee until an ounce of gold was equivalent ,as you would have it, to $31. In what respect would the farmer have been benefited ?

As the money became less valuable we may suppose, other conditions being the same, that all prices expressed in that currency would have been higher, and the price of everything he has been buying since 1873 would have been correspondingly higher. If all values were effected alike, as we will now assume for the sake of the argument , his hired help, all items of family expenditure, his implements, all improvements he might make on his farm,would have cost correspondingly more . If it were not so it would be because some one working for him had failed to receive his just

share of a general advance. While it is true that an advance thus caused would be an uneven one, and that the farmer himself would fail to receive it with any certainty except upon exportable products, the argument for a depreciating currency is made stronger by the assumption that the advance is uniform.

You have named but two classes of expenditures in which you claim a depreciated currency would serve the farmer better than a currency of gold value, viz: debts and taxes. It follows that on the part of his crop which goes for other disbursements there is no claim of loss by reason of the gold standard. Let us now consider his taxes. These are levied to meet the cost of administering national, state, county, municipal and school district affairs. The bulk of the taxes are local, and with the farmer are mainly for county, township and school district expenditures. What reason is there for supposing that with all other expenditures higher the cost of maintaining these organizations and institutions would not have been higher? Do you calculate that the farmer might have had more for his wheat, cotton and wool, the mechanic more for his labor, and the landlord more for the use of his house and yet the school teacher have had no higher wages? Evidently this is an error. If the standard by which values have been estimated had been different, all expenditures for account of the public as well as for private account would have been different.

There remains then to consider only how much ,if anything, the American farmer would have saved upon his debts if the dollar had been keeping company with the rupee since 1873. In the first place there are practically no debts outstanding now which were made in or prior to the year 1873.. It is unfair to represent debtors now as paying obligations contracted under the conditions of that time. The bulk of present indebtedness has been created in recent years . The indebtedness outstanding in 1873 may be assumed to have been chiefly paid before the rupee reached its present low value.

A farmer's debts stand for purchases he has made. If the dollar had been falling and all purchases since 1873 had been at a higher range of prices, it is evident that the farmer's debts must have been correspondingly larger to make the same purchases. He would not only have had a greater sum in principal to re-pay, but a larger interest payment to keep up. Furthermore when the currency of a country is depreciating , as the rupee of India has been, and an apparent advantage is thereby given to the debtor, the creditor class is usually fully informed upon the situation . They do not go on loaning money at the same rates or in as large offerings as before . Some divert their money to other countries and others change the form of their investments. Not so much money is offered for loan and lenders become enough more exacting to protect themselves against the gain which you calculate borrowers

would make off of them. As the risk is always an unknown quantity it is often the case that so much capital is diverted as to enable the lenders remaining in the field to not only protect themselves but make a profit on the risk they have accepted. High interest rates always prevail where any uncertainty attaches to payment. The drop in the rate of interest on farm loans which has followed the gold standard victory of 1896 is one of the fruits of a stable standard of value.

Finally, if the farmers of the United States had been selling their grain for depreciating silver dollars they would not have received the full measure of increase which the depreciation would have called for. The fluctuations which would have existed between the standard by which sales were made abroad and that by which payment was made at home would have made it necessary for the middleman to have had the same kind of insurance which the lender is described as taking in the foregoing paragraph. The margin for the middleman both on exports and imports would have been greater producers and consumers bearing the cost.

But after considering these reasons for believing that the farmer of the United States would be in no better position if 31 of our silver dollars were only equal to an ounce of gold, we have not yet reached the most serious and practical objection to your

theories. If our mints had been constantly open to the free coinage of silver, and our dollar had made the gradual descent in the course of twenty-five years that the rupee has made, we would be in a very different position from that into which we would be plunged by opening the mints now to the free coinage of silver. Under a gradual decline ,business, although disturbed, is able in some measure, to adjust itself to the changing value. Prices and wages have time to follow,perhaps at no great distance . Contracts have time to mature before ruinous changes become established. But to force a country with the vast business concerns of the United States to make without time, the change that India has accomplished in twenty-five years would disjoint, disorganize, and paralyze its commercial and industrial system.

You assume that the entire fall in wheat in London since 1873 has been caused by the decline in silver. In a previous letter I have pointed out that wheat had been considerably lower in London prior to 1873. According to the Corn Trade News, the average price in 1873 was $1.76, while in 1870 it was $1.40 3/4. The average from 1861 to 1870 was $1.53. Since 1873 the carrying capacity of ships has been greatly increased and it is possible to deliver wheat from all parts of the globe in London at much less cost for freight than formerly. Railway carriage from the interior of India, Russia, Argentine and the United States to the seaboard

has also been greatly cheapened.

It is clear that this would affect the price of wheat somewhere, either in the primary markets or in London. If there had been a limit upon production the price would probably have advanced in the primary markets and the saving have accrued to the producer. But there were vast areas of new and cheap lands in these countries and immigrants rushed over the new railways to occupy them. They increased the output of wheat and the economic saving accomplished by cheaper transportation fell to the consumer in the competitive markets. Wheat has consequently fallen in London much more than in the countries where the exportable supply is produced.

The records of the Chicago Board of Trade show that the average gold value of wheat on that market in 1873 was $1.02. For 1869 it was 83 5/8 and for 1870 83 3/8. The average gold value from 1861 to 1870 was 87 cents. The average for the two years 1897 and 1898 was 85 1/8 ;from 1891 to July 1,1899, it has been 75 cents. Meantime the self binder and other machines have greatly cheapened the cost of production. None of these considerations are made any account of by you, although they clearly are pertinent to the subject.

In conclusion permit me to notice your regret that "our sympathies in this contention take so different a direction". Our sympathies in so far as they influence us to action are directed by our understandings. I am at a loss to comprehend how one's sympathies can

lead one counter to what he considers the best interests of the party sympathized with. I do not think the money question is a contention between rival interests. I think that what is right is best for everybody, that there is harmony between the true interests of all useful classes of society. The rightful gains of each are not made at the expense of others but by service valuable to all.

Respectfully yours,

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Respectfully yours,
[Signature] Lyman J. Gage,
Secretary.